

Message Text

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SUBJECT: PAYMENT OF COMPENSATION TO EX-SHAREHOLDERS OF
NATIONALIZED BANKS IN PAKISTAN

REF: (A) KARACHI 1435 (B) KARACHI 1652

BEGIN UNCLASSIFIED

SUMMARY: PAYMENT OF COMPENSATION TO EX-SHAREHOLDERS OF NATIONAL-
IZED COMMERCIAL BANKS HAS COMMENCED. A SUM OF RS. 43.06 CRORE
(\$43.5 MILLION) WILL BE PAID AS COMPENSATION ON THE BASIS OF
BREAK-UP VALUE PER SHARE OF EACH BANK. COMPENSATION IS BEING PAID
IN THE FORM OF BONDS BEARING AN INTEREST RATE OF 1 PERCENT ABOVE
BANK RATE WITH MATURITY PERIOD OF 15 YEARS. END SUMMARY

1. A HIGH OFFICIAL OF THE PAKISTAN BANKING COUNCIL (PBC) HAS
INFORMED A CONGEN STAFF MEMBER THAT THE GOP WILL PAY TOTAL
COMPENSATION OF RS. 40.49 CRORE (\$40.90 MILLION) TO EX-
SHAREHOLDERS OF NATIONALIZED COMMERCIAL BANKS ON THE BASIS OF
BREAK-UP VALUE PER SHARE OF EACH BANK. FOUR NATIONALIZED COMMER-
CIAL BANKS WERE REPORTED BY THIS OFFICIAL TO HAVE NIL BREAK-UP
VALUE AND HENCE NO COMPENSATION WILL BE PAID TO EX-SHAREHOLDERS

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OF THESE BANKS. IN ADDITION A TOTAL COMPENSATION OF RS. 2.57

CRORE (\$2.6 MILLION) WILL BE PAID TO EX-SHAREHOLDERS OF THE INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN (IDBP), A DEVELOPMENT BANK ESTABLISHED IN 1961 BY THE GOP WHICH CONTROLLED 51 PERCENT OF THE TOTAL SHARES. THUS, TOTAL COMPENSATION FOR NATIONALIZED BANKS WILL BE RS. 43.06 CRORE (\$43.5 MILLION).

2. COMPENSATION WILL BE PAID IN THE FORM OF NEGOTIABLE AND TRANSFERABLE BONDS CARRYING AN INTEREST OF 1 PERCENT ABOVE BANK RATE WITH A MATURITY PERIOD OF 15 YEARS. THESE TERMS ARE SIMILAR TO THOSE FOR TAKEN-OVER INDUSTRIES REPORTED REF B. COMPENSATION BONDS WILL BE ELIGIBLE FOR INTEREST PAYMENT WITH EFFECT FROM JANUARY 1, 1974, THE DATE OF BANK NATIONALIZATION. INTEREST WILL BE PAYABLE BIANNUALLY ON JANUARY 1 AND JULY 1 ANNUALLY. THE LAST DATE FOR SURRENDER OF SHARE CERTIFICATES FOR CLAIMING COMPENSATION FROM RESPECTIVE BANKS IS DEC 31, 1974. END UNCLASSIFIED

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3. COMMENT: THE CONSIDERABLY DELAYED PAYMENT OF COMPENSATION TO THE EX-SHAREHOLDERS OF THE NATIONALIZED BANKS, WHICH FOLLOWS THE EVEN MORE BELATED ISSUANCE OF COMPENSATION BONDS BY THE BOARD OF INDUSTRIAL MANAGEMENT TO THE SHAREHOLDERS OF THE 31 TAKEN-OVER INDUSTRIES, WILL NO DOUBT HAVE A SOMEWHAT REASSURING EFFECT ON THE PRIVATE SECTOR. ONE LOCAL U.S. BANKER HAS INFORMED THE CONGEN THAT THE GOP HAS MADE AN AS YET UNPUBLICIZED DECISION TO (1) CLASSIFY THE BONDS AS APPROVED SECURITIES FOR BANK RESERVE REQUIREMENTS AND (2) APPROVE THE BONDS FOR FULFILLMENT OF LOCAL CAPITAL REQUIREMENTS FOR FOREIGN BANKS. OUR BANKING CONTACT BELIEVES THAT THIS GOP DECISION WILL DO MUCH TO INCREASE THE ATTRACTIVENESS OF THESE BONDS AS INVESTMENTS FOR BOTH LOCAL AND FOREIGN BANKS AND THEREFORE SUPPORT THE MARKET FOR COMPENSATION BONDS IN GENERAL. HE BELIEVES THAT THE BONDS WILL SELL AT A DISCOUNT OF ABOUT 15 PERCENT, THUS RAISING THEIR EFFECTIVE YIELD TO ABOUT 12 OR 13 PERCENT. SINCE NONE OF THESE BONDS HAVE YET COME INTO THE MARKET, IT IS TOO EARLY TO MAKE ANY DEFINITE PREDICTIONS REGARDING THEIR INFLUENCE ON THE INVESTMENT CLIMATE. IT IS HOPED, HOWEVER, THAT FUNDS GAINED FROM THEIR TRANSFER INTO THE BANKS AND OTHER BUYERS MAY INCREASE THE LEVEL OF FUNDS AVAILABLE FOR ANY INVESTMENT. ON THE OTHER HAND, IT IS UNDERSTOOD THAT CERTAIN LARGE HOLDERS OF COMPENSATION BONDS, LIKE THE SAIGOL FAMILY WHO OWNED UBL, HAVE ASSURED THE GOVERNMENT THAT THEY WILL LIMITED OFFICIAL USE

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NOT DISPOSE OF THEIR BONDS RAPIDLY, WHICH COULD DEPRESS THE OVERALL MARKET FOR COMPENSATION BONDS. END LIMITED OFFICIAL USE
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